

OPEN MEETING ITEM



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COMMISSIONERS
GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

ORIGINAL



ARIZONA CORPORATION COMMISSION

DATE: SEPTEMBER 27, 2011

DOCKET NO.: WS-01678A-10-0504

TO ALL PARTIES:

Arizona Corporation Commission

DOCKETED

SEP 27 2011

DOCKETED BY

Enclosed please find the recommendation of Administrative Law Judge Belinda A. Martin. The recommendation has been filed in the form of an Order on:

BACA FLOAT WATER COMPANY, INC.
(RATES)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

OCTOBER 6, 2011

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

OCTOBER 11, 2011 and OCTOBER 12, 2011

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

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EXECUTIVE DIRECTOR

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

GARY PIERCE - Chairman
BOB STUMP
SANDRA D. KENNEDY
PAUL NEWMAN
BRENDA BURNS

IN THE MATTER OF THE APPLICATION
OF BACA FLOAT WATER COMPANY, INC. -
SEWER DIVISION FOR APPROVAL OF A
RATE INCREASE.

DOCKET NO. WS-01678A-10-0504

DECISION NO. _____

ORDER

Open Meeting
October 11 and 12, 2011
Phoenix, Arizona

BY THE COMMISSION:

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

PROCEDURAL HISTORY

1. Baca Float Water Company ("Baca Float" or "Company"), is an Arizona 'C' corporation engaged in the business of providing sewer utility service to approximately 330 customers in Tubac, Santa Cruz County, Arizona, pursuant to Decision No. 60721 (March 23, 1998).¹ The Company's current rates and charges for sewer service were set in that Decision.

2. On December 17, 2010, Baca Float filed with the Commission an application for a permanent rate increase for its sewer division ("Application").

3. On January 18, 2011, the Commission's Utilities Division Staff ("Staff") filed its Sufficiency Letter, indicating that the Application was sufficient pursuant to the Arizona Administrative Code ("A.A.C."), and classifying the Company as a Class D utility.

4. On January 20, 2011, Baca Float filed a certification stating that it mailed to its customers on January 18, 2011, by First Class Mail, notice that the Company had filed the

¹ In Decision No. 70290 (April 24, 2008), the Commission granted Baca Float an extension of its Certificate of Convenience and Necessity for sewer service.

1 Application with the Commission. In response to the notice, 23 customers filed comments, each
2 objecting to Baca Float's requested rate increase.

3 5. On April 4, 2011, Staff filed its Staff Report recommending approval of the
4 Company's Application, subject to certain conditions.

5 6. On May 3, 2011, Baca Float filed its comments to the Staff Report, objecting to
6 Staff's recommended Service Lateral Installation Charges.

7 7. On May 18, 2011, Staff filed a Notice of Filing stating that one of Staff's
8 recommended conditions in the Staff Report had been met and Staff withdrew the condition.

9 8. On June 1, 2011, a Procedural Order was filed directing Staff to file no later than June
10 17, 2011, a response to the Company's objections to Staff's recommended Service Lateral
11 Installation Charges. The Procedural Order also directed Baca Float to file no later than July 1, 2011,
12 its comments to Staff's response, if any, or indicate whether the Company believed a hearing was
13 necessary. Because of the timing of these additional filings, the Procedural Order suspended the time
14 clock in this matter.

15 9. On June 17, 2011, Staff filed its response to the Company's objection to Staff's
16 recommended Service Lateral Installation Charges.

17 10. The Company did not file a reply to Staff's response and did not request a hearing.

18 **FINDINGS OF FACT**

19 11. During the test year ended December 31, 2009, Baca Float served approximately 320
20 residential customers and 10 commercial customers using 4-inch lateral service lines. Baca Float's
21 sewer system consists of 94 septic tank effluent pumping systems, sewer collection mains and a
22 sewage treatment system capable of treating up to 100,000 gallons per day. The treated effluent is
23 sent to either a habitat pond or a storage pond.

24 12. The sewer rates and charges for Baca Float at present, as proposed by Baca Float in its
25 Application, and as recommended by Staff in its Staff Report, are as follows:

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<u>MONTHLY RATE:</u>	<u>Present Rate</u>	<u>Proposed Rates</u>	
		<u>Company</u>	<u>Staff</u>
<u>Flat Rate Customers:</u>			
Residential	\$35.00	\$55.00	\$54.00
Commercial	35.00	105.00	90.00
<u>Effluent Sales (Per 1,000 gallons):</u>			
0 to 5,000 gallons	0.90	3.00	N/A
5,001 gallons and above	1.15	3.85	N/A
All gallons of usage	N/A	N/A	\$3.27

SERVICE LATERAL INSTALLATION CHARGES:

	<u>Current Tariff</u>	<u>Company Proposed Charges</u>	<u>Staff Recommended Charges</u>
<u>Meter Sizes:</u>			
4-inch Lateral	N/A	\$1,600	\$800
6-inch Lateral	N/A	2,300	1,000
8-inch Lateral	N/A	2,700	1,200
10-inch Lateral	N/A	N/A	1,400
12-inch Lateral	N/A	\$3,800	1,600

<u>SERVICE CHARGES:</u>	<u>Present Rates</u>	<u>Proposed Charges</u>	
		<u>Company</u>	<u>Staff</u>
Establishment	\$20.00	\$20.00	\$20.00
Establishment (After Hours)	N/A	50.00	N/A
After Hours Service Charge	N/A	N/A	50.00
Reconnection (Delinquent)	\$30.00	\$30.00	\$30.00
Deposit	*	*	*
Deposit Interest	*	*	*
Re-Establishment (Within 12 Months)	**	**	**
NSF Check	\$12.00	\$25.00	\$25.00
Deferred Payment	N/A	1.50%	1.50%
Late Payment Penalty	1.50%	1.50%	1.50%

* Per Commission Rule A.A.C. R14-2-603.D.
 ** Months off systems times the monthly minimum (R14-2-603.D).

13. Staff determined Baca Float's original cost rate base ("OCRB") to be \$168,536, which is the same as its fair value rate base ("FVRB"). This is a \$909,030 decrease to Parker's proposed OCRB of \$1,077,566, due to Staff's adjustments to plant-in-service, accumulated depreciation,

1 contributions in aid of construction (“CIAC”), amortization of CIAC and working capital.

2 14. We find that Staff’s proposed FVRB of \$168,536 is reasonable and adopt this amount
3 as the Company’s OCRB.

4 15. Staff made an adjustment to Baca Float’s proposed test year operating revenues,
5 resulting in an increase of \$1,559, from \$139,721 to \$141,280, based on the Company’s submitted
6 bill count.

7 16. Staff made a number of adjustments to Baca Float’s proposed test year operating
8 expenses, resulting in a decrease of \$150,791, from \$372,060 to \$221,269. The decrease to Baca
9 Float’s test year operating expense is due to Staff’s adjustments to materials and supplies, contractual
10 services, insurance expense, rate case expense, depreciation expense, and taxes.

11 17. Based on Staff’s analysis, Baca Float’s present sewer rates and charges produced
12 adjusted operating revenues of \$141,280 and adjusted operating expenses of \$221,269, which
13 resulted in operating loss of (\$79,989), for no rate of return during the test year.

14 18. The rates and charges proposed by Baca Float would produce operating revenues of
15 \$232,920, an increase of \$91,640, or 64.86 percent, over adjusted test year revenues, and operating
16 expenses of \$372,060, resulting in an operating loss of (\$139,140), for no rate of return.

17 19. The rates and charges Staff recommended would produce operating revenues of
18 \$221,269, an increase of \$79,989, or 56.62 percent, over adjusted test year revenues, and adjusted
19 operating expenses of \$221,269, resulting in zero operating income and no rate of return.

20 20. Staff notes that, even though its recommendations produce no operating income, the
21 Company will have sufficient cash flow through use of its \$22,882 depreciation expense to meet
22 Baca Float’s operating needs. Staff also noted that, “[i]n determining the revenue requirement, Staff
23 endeavored to provide the Company sufficient funds to manage contingencies, operating expenses,
24 etc. The Company stated that, due to the size of the rate increase that would be required to provide a
25 full return on its investment and the hardship it would place on its customers, it was seeking only to
26 recover operation expense outlays at this time.”²

27
28 ² Staff Report dated April 4, 2011, page 8.

1 21. We find that Staff's proposed revenue of \$221,269 is reasonable.

2 22. Baca Float's proposed rates would increase the residential monthly service rate by
3 \$20.00, or 57.1 percent, from \$35.00 to \$55.00.

4 23. Staff's proposed rates would increase the residential monthly service rate by \$19.00,
5 or 54.3 percent, from \$35.00 to \$54.00.

6 24. Baca Float did not oppose Staff's recommended rates.

7 25. We find that the rates recommended by Staff are just and reasonable and should be
8 adopted.

9 26. Baca Float objects to Staff's recommended Service Lateral Installation Charges,
10 claiming that Staff's charges are too low. The Company states that there could be between three to
11 nine houses served by one septic tank and the farther away a house is from the septic tank, the higher
12 the cost to extend the line. Baca Float also argues that, because of the economic downturn, it has
13 become increasingly difficult to find local contractors and the Company must use contractors from
14 the Tucson area, which increases costs due to travel time and fuel costs. Accordingly, Baca Float
15 believes that its proposed charge of \$1,600 for a 4-inch meter is the minimum cost, and could be
16 higher.

17 27. Based on the information Staff collected during a site visit and the Company's
18 response to data requests, Staff concluded that the system's "collection main was installed before the
19 septic tank that collects the sewage flow of the 3 to 9 homes per [Septic Tank Effluent Pumping
20 system]. Staff considered this collection main the responsibility of the Company and did not include
21 its cost as part of the service lateral installation charge."³ Staff states its proposed charges are based
22 solely on the cost to the customer of extending the service lateral from the home to the collection
23 main. As such, Staff believes its proposed charges are reasonable and appropriate.

24 28. Based on Staff's response, we find that Staff's Service Lateral Installation Charges are
25 reasonable and shall be adopted.

26 29. In its Application, Baca Float proposed an Establishment (After Hours) Charge of \$50.
27

28 ³ Staff Response to Service Lateral Installation Charges dated June 17, 2011, page 2.

1 30. Staff agrees that charging an additional fee for services provided after normal business
2 is appropriate when such service is at the customer's request or convenience, and believes it is
3 appropriate to apply an after-hours service charge, in addition to the charge for any utility service
4 provided. Staff believes such a tariff compensates a company for additional expenses incurred from
5 providing service after normal business hours. As such, rather than adopt the Company's proposed
6 Establishment (After Hours) Charge of \$50, Staff recommends a separate \$50 After-Hours Service
7 Charge, to be charged in addition to the service charge for the specific work performed.

8 31. Baca Float also proposes an increase in its Insufficient Funds Charge from \$12 to \$25.
9 Staff believes this is a reasonable charge and recommends approval.

10 32. Staff's service charge recommendations are reasonable and shall be adopted.

11 33. Staff also recommends that Baca Float be ordered to file with Docket Control, within
12 30 days after the effective date of the Decision in this matter, as a compliance item in this docket, a
13 tariff schedule of its new rates and charges.

14 34. Staff further recommends that Baca Float be required to adopt the typical and
15 customary depreciation rates set forth in the attached Exhibit A.

16 35. In the Staff Report, Staff stated that, at the time Baca Float submitted its Application,
17 the Arizona Department of Environmental Quality ("ADEQ") reported that the Company was not in
18 compliance with its Aquifer Protection Permit due to a monitoring and reporting violation for volatile
19 organic compounds. Accordingly, Staff recommended that the Company be required to file a copy of
20 an updated ADEQ Compliance Status Report indicating that Baca Float is in compliance with ADEQ
21 requirements.

22 36. On May 18, 2011, Staff filed a Notice of Filing stating that on May 17, 2011, Staff
23 received an updated ADEQ Compliance Status Report indicating that Baca Float's sewer system is in
24 compliance with ADEQ requirements. As a result, Staff withdrew its recommendation regarding the
25 filing of the updated ADEQ Compliance Status Report.

26 37. Staff states that Baca Float is current on its property taxes.

27 38. According to Staff, the Company has no outstanding Commission compliance issues.

28 39. The Commission's Corporations Division reports that Baca Float is in good standing.

1 40. Staff also stated that from January 1, 2008, through March 14, 2011, there were no
2 customer complaints filed against the Company.

3 41. We find that Staff's recommendations are reasonable and appropriate and should be
4 adopted.

5 **CONCLUSIONS OF LAW**

6 1. Baca Float is a public service corporation within the meaning of Article XV of the
7 Arizona Constitution and A.R.S. §§ 40-281 and 40-282.

8 2. The Commission has jurisdiction over Baca Float and the subject matter of the
9 Application.

10 3. Notice of the Application was given in accordance with Arizona law.

11 4. The rates and charges authorized herein are just and reasonable and should be
12 approved without a hearing.

13 5. Staff's recommendations are reasonable and should be adopted

14 **ORDER**

15 IT IS THEREFORE ORDERED that Baca Float Water Company, Inc. - Sewer Division is
16 hereby directed to file with Docket Control by October 31, 2011, as a compliance item in this docket,
17 revised rate schedules setting forth the following rates and charges:

18 **MONTHLY RATE:**

19 Flat Rate Customers:

20 Residential	\$54.00
Commercial	90.00

21 Effluent Sales (Per 1,000 gallons):

22 All gallons of usage	\$3.27
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23 **SERVICE LATERAL INSTALLATION CHARGES:**

24 Meter Sizes:

24 4-inch Lateral	\$800
25 6-inch Lateral	1,000
8-inch Lateral	1,200
10-inch Lateral	1,400
26 12-inch Lateral	1,600

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1 **SERVICE CHARGES:**

2	Establishment	\$20.00
	After Hours Service Charge	50.00
3	Reconnection (Delinquent)	30.00
	Deposit	*
4	Deposit Interest	*
	Re-Establishment (Within 12 Months)	**
5	NSF Check	\$25.00
	Deferred Payment	1.50%
6	Late Payment Penalty	1.50%

7 * Per Commission A.A.C. Rule R14-2-603.D.
 8 ** Months off systems times the monthly minimum (A.A.C. R14-2-603.D).

9 IT IS FURTHER ORDERED that the rates and charges set forth above shall be effective for
 10 all services rendered by Baca Float Water Company, Inc. - Sewer Division on and after November 1,
 11 2011.

12 IT IS FURTHER ORDERED that Baca Float Water Company, Inc. - Sewer Division shall
 13 notify its customers of the authorized rates and charges, and their effective date, and in a form
 14 acceptable to the Commission's Utilities Division Staff, by means of an insert in its next regularly
 15 scheduled billing.

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IT IS FURTHER ORDERED that Baca Float Water Company, Inc.-Sewer Division shall adopt the typical and customary depreciation rates as set forth in the attached Exhibit A.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2011.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT _____

DISSENT _____

1 SERVICE LIST FOR: BACA FLOAT WATER COMPANY, INC. - SEWER
2 DIVISION

3 DOCKET NO.: WS-01678A-10-0504

4 Harold Busboom
5 BACA FLOAT WATER CO., INC.
6 P.O. Box 1536
7 20 Avenida Goya
8 Tubac, AZ 85646

9 Janice Alward, Chief Counsel
10 Legal Division
11 ARIZONA CORPORATION COMMISSION
12 1200 West Washington Street
13 Phoenix, AZ 85007

14 Steven M. Olea, Director
15 Utilities Division
16 ARIZONA CORPORATION COMMISSION
17 1200 West Washington Street
18 Phoenix, AZ 85007

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EXHIBIT A

Table H-1. Depreciation Rates

NARUC Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	20	5.00
360	Collection Sewers - Force	50	2.0
361	Collection Sewers- Gravity	50	2.0
362	Special Collecting Structures	50	2.0
363	Services to Customers	50	2.0
364	Flow Measuring Devices	10	10.00
365	Flow Measuring Installations	10	10.00
366	Reuse Services	50	2.00
367	Reuse Meters & Meter Installations	12	8.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	8	12.50
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission & Distribution System	40	2.50
380	Treatment & Disposal Equipment	20	5.0
381	Plant Sewers	20	5.0
382	Outfall Sewer Lines	30	3.33
389	Other Plant & Miscellaneous Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.0
391	Transportation Equipment	5	20.0
392	Stores Equipment	25	4.0
393	Tools, Shop & Garage Equipment	20	5.0
394	Laboratory Equipment	10	10.0
395	Power Operated Equipment	20	5.0
396	Communication Equipment	10	10.0
397	Miscellaneous Equipment	10	10.0
398	Other Tangible Plant	---	---

NOTE: Acct. 398 - Other Tangible Plant may vary from 5% to 50%. The depreciation rate would be set in accordance with the specific capital items in this account.